HEALTH FINANCE COMMISSION

Legislative Services Agency
200 West Washington Street, Suite 301
Indianapolis, Indiana 46204-2789
Tel: (317) 233-0696 Fax: (317) 232-2554

MEETING MINUTES[1]

Meeting Date:	**July 27, 2004**
Meeting Time:	**1:00 P.M.**
Meeting Place:	**State House, 200 W. Washington St., House Chamber**
Meeting City:	**Indianapolis, Indiana**
Meeting Number:	**1**

Members Present: **Rep. Charlie Brown, Chairperson; Rep. David Orentlicher; Rep. John Day; Rep. Carolene Mays; Rep. Scott Reske; Rep.Peggy Welch; Rep. Vaneta Becker; Rep. Robert Behning; Rep. Mary Kay Budak; Rep. Donald Lehe; Sen. Patricia Miller, Vice-Chairperson; Sen. Billie Breaux; Sen. Vi Simpson; Sen. Timothy Skinner; Sen. Gregory Server; Sen. Beverly Gard; Sen. Sue Landske; Sen. Connie Lawson; Sen. Marvin Riegsecker.**

Members Absent: **Rep. Timothy Brown; Rep. David Frizzell; Rep. Craig Fry; Rep. Brian Hasler; Sen. Gary Dillon; Sen. Connie Sipes.**

Chairman Rep. Charlie Brown called the first meeting of the Health Finance Commission to order at 1:10 P.M. Representative Brown opened the meeting with introductions of the members present and a review of the topics assigned to the committee for the interim session. He also announced that there is a 3 meeting limit for this interim session.

[1] Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of $0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is http://www.ai.org/legislative/. No fee is charged for viewing, downloading, or printing minutes from the Internet.

Viability of County Hospitals, (HR 76)

Rep. Ralph Foley

Rep. Foley described District 47, the district that he represents. He explained that Morgan County Hospital was the institution that initiated his concern regarding the unique role of county hospitals in the provision of healthcare that resulted in House Resolution 76. Rep. Foley discussed the major purchasers of health care and the issue of new providers entering a county hospital's market to skim the most profitable pieces of the hospital's business, a practice referred to as "cherry-picking". He expressed his concern for the long-term survival of the county hospitals if they are left as sole providers of emergency and indigent care in diminished markets.

Rep. Foley also discussed the issue of the county hospital's access to the capital markets, required hospital construction codes, licensure requirements, and the cost of burdensome or unnecessary governmental regulations that result in an unfair advantage to boutique providers or other organizations with different, less regulated corporate structures. Specifically, he mentioned that county-owned hospitals conduct business in an open public forum, subject to open-door laws; shouldn't other providers be required to undergo some similar public scrutiny? He stated that a transparent public forum is needed in all communities. Rep. Foley commented that there should be a serious consideration of the role of the county hospitals in the provision of health care in Indiana and what measures may be necessary to keep these institutions financially viable. (See Handout A)

Commission discussion followed with regard to the number and locations of county-owned hospitals, what the role of certificate of need (CON) or a moratorium might be with regard to the financial viability of these hospitals, and if the hospitals support either of those measures. It was pointed out that the issues raised are not specific to county hospitals but that not-for-profit hospitals also have similar concerns.

Rep. Thomas Kromkowski

Rep. Kromkowski asked for the Commission's consideration of a bill he has sponsored for several years dealing with county hospital privileges for chiropractors, podiatrists, and optometrists, (HB 1345-2003). He pointed out that all of these professions are licensed healthcare professionals in Indiana. Rep. Kromkowski reported that the bill has passed in the House but has failed in the Senate; he requested the Commission's support for the bill.

Commission discussion followed with regard to what professions would have county hospital privileges, and if support of such a bill would help the financial viability of county hospitals.

Tim Kennedy, Indiana Hospital and Health Association

Mr. Kennedy reported that there are 119 acute care hospitals in the state; 36 county hospitals, 1 city hospital, and the Health and Hospital Corporation's Wishard Hospital. 28 of the county hospitals are the sole acute care hospital in the counties in which they are located. Mr. Kennedy reviewed how state law regulates the county hospitals. Clinical licensure as a hospital in Indiana is the same regardless of the type of ownership. The main difference in the governance of the county hospitals is the method by which the governing boards are selected. He stated that County hospitals are units of government and are subject to open door laws. He also commented that counties may guarantee bonds for their county hospitals but the necessity of this depends on the financial position of the individual hospital. About one-half of bond issues for county hospitals have required county backing.

Mr. Kennedy reported that the Indiana Hospital and Health Association (IHHA), opposed the issue of Certificate of Need (CON) last year, but are reexamining the policy this year. He suggested that there may be ways other than CON to level the playing field in the competition between niche providers and the general acute care hospitals. He referred to Rep. Crawford's bill of two years ago prohibiting physicians from referring patients to a facility in which they have an ownership interest as one possibility. He also suggested that boutique providers should be considered for licensure if not currently required; information reporting consistent with the levels required of hospitals might also merit consideration.

There was committee discussion concerning Department of Health licensure requirements for freestanding providers and whether boutique providers actually refuse certain patients. (There is no data on the payers for services in these facilities.) There were additional questions regarding requirements for the sharing of data.

Matthew Brooks, Association of Indiana Counties

Mr. Brooks commented that county-owned hospitals have been self-sufficient for many years but the issue of cherry-picking in their markets by niche providers appears to be a looming problem. The hospitals are public entities with strong citizen support in their communities. With regard to Certificate of Need, Mr. Brooks reported that the county hospitals have mixed positions on this issue; some support the concept, others do not.

Paul Clippinger, Morgan County Hospital and Medical Center

Mr. Clippinger commented that a moratorium on construction could be a short-term solution to allow time for the legislature to make policy decisions. He stated that commercial insurance business is essential to county hospitals in order to provide funds to cover bad debt, low pay, and governmental payers which constitute a majority of Morgan County Hospital's purchasers of services. He expressed concern that additional competition for the insured patients may come from boutique providers in the county as well as physician-owned hospital facilities that may be located in adjacent counties.

Committee discussion followed regarding the role of the emergency department in the provision of medical services to low-income individuals; many of the low-pay or no-pay patients the hospitals serve. The fact that boutique operations or specialty clinics might provide specialized services at a lower cost to the purchaser was pointed out.

Generic Drug Pricing Variances, (HR 59)

Chairman C. Brown explained that the wide variance of generic drug costs between pharmacies and even within a drug store chain was the source of his concern with regard to this issue. He would like to know who determines the cost.

Larry Sage, Indiana Pharmacists' Alliance

Mr. Sage began his comments by explaining that the Alliance is not involved in any drug pricing surveys or other activities that would constitute a violation of antitrust laws. Mr. Sage stated that nationally, in 1990, 63% of all prescriptions were paid in cash by consumers; by 2003, Medicaid and private insurers had assumed 86% of the payments for prescription drugs and only 14% of all prescriptions were purchased at retail. With the implementation of the new Medicare benefits in 2006, the remaining retail business will shrink to an even lower level.

Mr. Sage commented that generic drugs are produced by dozens of manufacturers and handled by numerous distributers or pharmacy chains; all of these factors can affect the price.

Pricing is a specific business decision made by each business. Buyers decide where to purchase by price, location, or other factors.

Committee discussion followed. The practice of retail chains to use “zone pricing” within a city was described. This was suggested as one of the factors that may be influencing pricing variances within a drug store chain. It was suggested that the consumer paying retail may be unable to access other locations. The question was raised with regard to whether the higher priced pharmacies are located within inner city neighborhoods and if such “zone pricing” would be the equivalent of red lining?

Grant Monahan, Indiana Retail Council

Mr. Monahan commented that chain drug stores are an important part of the Council’s membership but that the issue of price variances for similar products cuts across many retailers. The cost of doing business is reflected in the price of the product; inputs such as labor, energy, real estate taxes, the supplier, and other costs all influence the retail price. Competition can also affect the basic cost of the product. He stated that generic drug prices are always changing and that the consumers are free to shop where they please and look for the best price for drugs. He suggested that it may also be of benefit to some consumers to purchase drugs at one location for the professional pharmacist’s services.

Committee discussion included the possibility that some retailers use pharmacy sales as loss leaders or that the retailers depend on different mixes of retail product sales influencing their pricing decisions. The practice of meeting the competitor’s prices was also discussed.

Sen. Riegsecker, a licensed pharmacist, suggested that the price comparisons presented in the newspaper articles may not be accurate. He described the methods for generic substitution available in Indiana and the Federal Food and Drug Administration’s (FDA) rating system for generic drugs. Sen. Riegsecker explained that in Indiana, if a prescription is written for a brand name product with the indication that a generic may be substituted, the substitution must be an FDA, A or B rated generic equivalent. If the prescription is written for the generic, the pharmacist may fill the order with any generic by that name without regard to the FDA rating.

Commission discussion followed regarding the (FDA) generic rating system, and the role that manufacturers and wholesalers play in the retail pricing of these generic drugs. LSA staff was requested to contact various parties to appear before the Commission at the next meeting.

The next meeting of the Commission was scheduled for August 30, 2004, at 1:00 P.M.

The meeting was adjourned at 3:05 P.M.